EFFECT OF CORPORATE GOVERNANCE ON FINANCIAL PERFORMANCE OF TELECOMMUNICATION FIRMS IN KENYA

BY

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DECLARATION

This research project is my original work and has not been submitted for examination to any other university.

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This research project has been submitted for examination with my approval as the University of Nairobi Supervisor

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DEDICATION

I dedicate this research project to my family. My husband and children have given me a lot of encouragement, support and peace to work on this project. My parent’s advised, supported and mentored me to go through education up to University level. Above all I thank the Almighty God for guidance and provision towards completion of this research project.
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LIST OF ABBREVIATIONS

CEO --------- Chief Executive Officer

CG --------- Corporate Governance

OECD --------- Organisation for Economic Co-operation and Development

ROA --------- Return on Assets

ROE --------- Return on Equity

SACCO --------- Savings and Credit Cooperative Societies

US --------- United States of America
ABSTRACT

None of the studies done in Kenya has focused on effects of Corporate Governance on the financial performance in Kenya focused on the telecommunication industry despite its strategic role in enhancing the economic growth of Kenya. Informed by this knowledge gap, the study attempted to answer the following research question: what are the effects of Corporate Governance on the financial performance of telecommunication firms in Kenya? This study adopted a descriptive survey research design. The target population was telecommunication companies in Kenya which included Safaricom limited, Airtel, Telkom Kenya limited and YU. For the purpose of this study, the researcher used secondary data. Descriptive statistics was used to analyse quantitative data. Regression analysis was used to test the relationship between corporate governance and Financial Performance. From the findings, board size negatively affected the financial performance of the telecommunication firms in Kenya. The board structure as a corporate governance practice positively affected the financial performance. The CEO duality did not affect the financial performance. The board independence negatively affected the financial performance. The insider ownership positively affected the financial performance. The study recommends that the shareholders’ should not only reduce their firms’ board sizes but also shift their focus to the quality of the board of directors. The shareholders of the telecommunication firms should strive to create an optimal board structure that comprises of representatives of all the crucial stakeholders in the various sub-committees of the board. The shareholders should strive to create a board of directors with more dependent directors as opposed to independent directors. The employees and other internal parties should be allowed to hold some stake in the firms to give them a sense of ownership and commitment in running the affairs of the companies.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The governance structure of any corporate entity affects the firm’s ability to respond to external factors that have some bearing on its performance. In this regard, it has been noted that well-governed firms largely perform better and that good corporate governance is of essence to firms (Berglof and Von Thadden, 1999). The concept is gradually becoming a top of policy agenda in the African continent like in Ghana and South Africa. Indeed, it is believed that the Asian crisis and the seemingly poor performance of the corporate sector in Africa have made the concept of corporate governance resurface in the development debate. Corporate governance deals with ways in which suppliers of finance to corporations assure themselves of getting a return on their investment (Shleifer and Vishny, 1997).

Corporate governance refers to the system by which corporations are directed and controlled. The governance structure specifies the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and specifies the rules and procedures for making decisions in corporate affairs. Governance provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment. Governance is a mechanism for monitoring the actions, policies and decisions of corporations (Mcconomy et al., 2000).
Coleman & Nicholas-Biekpe (2006) defined corporate governance as the relationship of the enterprise to shareholders or in the wider sense as the relationship of the enterprise to society as a whole. In another perspective, Arun & Turner (2002) contend that there exist narrow approaches to corporate governance, which views the subject as the mechanism through which shareholders are assured that managers will act in their interest. There is a consensus, however that the broader view of corporate governance should be adopted in the case of banking institutions because of the peculiar contractual form of banking which demands that corporate governance mechanisms for banks should encapsulate depositors as well as shareholders (Macey & O’Hara, 2001). Arun & Turner (2002) supported the consensus by arguing that the special nature of banking requires not only a broader view of corporate governance, but also government intervention is order to restrain behavior of bank management.

Good corporate governance means little expropriation of resources by managers or controlling shareholders, which contributes to better allocation of resources and better performance. As investors and lenders will be more willing to put their money in firms with good governance, they will face lower costs of capital, which is another source of better firm performance. Other stakeholders, including employees and suppliers, will also want to be associated with and enter into business relationship with such firm, as the relationships are likely to be more prosperous, fairer, and long lasting than those with firms less effective governance (Bairathi, 2009).

1.1.1 Corporate Governance

Cadbury (2003) indicates that corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals.
The governance framework is there to encourage the efficient use of resources and
equally to require accountability for the stewardship of those resources. The aim is to
align as nearly as possible the interests of individuals, of corporations and of society.
According the OECD Principles of Corporate Governance (2004), the corporate
governance framework should promote transparent and efficient markets, be
consistent with the rule of law and clearly state the division of responsibilities among
different supervisory, regulatory and enforcement authorities. Corporate governance
describes the structure of rights and responsibilities among the parties that have a
stake in a firm (Aguilera & Jackson, 2003).

According to Mcconomy et al, (2000) System of corporate governance could be
defined as a set of processes and structures used to direct a corporation's business.
Once implemented, an effective corporate governance system can help to ensure an
appropriate division of power among shareholders, the board of directors, and
management. Whereas Bairathi (2009) said that “the corporate governance is not just
corporate management; it is something much broader to include a fair, efficient and
transparent administration to meet certain well-defined objectives”. It is a system of
structuring, operating and controlling a company with a view to achieve long term
strategic goals to satisfy shareholders, creditors, employees, customers and suppliers,
and complying with the legal and regulatory requirements, apart from meeting
environmental and local community needs. When it is practiced under a well-laid out
system, it leads to the building of a legal, commercial and institutional framework and
demarcates the boundaries within which these functions are performed.”
Good corporate governance should help local companies to gain access to foreign capital and foreign companies tend to gain investment opportunities providing portfolio diversification opportunities. According to LaPorta et al (1999) Evidence suggests that firms in emerging economies (compared with their counterparts in developed countries) are discounted in financial markets because of weak governance. Rajagopalan et al (2009) firmly felt that investors gain confidence in those firms that practice good corporate governance and these firms are at added advantage in accessing capital compared to firms that lack good corporate governance.

1.1.2 Financial Performance

The International financial landscape is changing rapidly; economies and financial systems are undergoing traumatic years. Globalization and technology have continuing speed, financial arenas are becoming more open with new products and services being invented and regulators everywhere are scrambling to assess the changes and master the turbulence (Sandeep et al, 2002).

Financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. The most popular measures of financial performance are return on equity (ROE) and return on assets (ROA). The ROE measures accounting earnings for a period per dollar of shareholders’ equity invested. It is a product of the profit margin and the asset turnover. ROA doesn’t distinguish between capital raised from shareholders and that
The financial performance analysis identifies the financial strengths and weaknesses of the firm by properly establishing relationships between the items of the balance sheet and profit and loss account (Al-Hussein et al, 2009).

1.1.3 Corporate Governance and Financial Performance

According to Bebchuk (2004) well-governed firms have higher firm financial performance. Poorly governed firms are expected to be less profitable. Claessens et al. (2002) posits that better corporate governance framework benefits firms through greater access to financing, lower cost of capital, better financial performance and more favourable treatment of all stakeholders. The weak corporate governance does not only lead to poor firm financial performance and risky financing patterns, but are also conducive for macroeconomic crises. Good corporate governance is important for increasing investor confidence and market liquidity (Donaldson, 2003).

Parker (2007) paradigm of the separation of shareholder ownership and management's control explained that agency problem occurs when the principal (Shareholders) lacks the necessary power/information to monitor and control the agent (manager) and when the compensation of the principal and the agent is not aligned. Good corporate governance shields a firm from vulnerability to future financial distress (Bhagat & Jefferis, 2002).

The argument has been advanced time and time again that the governance structure of any corporate entity affects the firm's ability to respond to external factors that have some bearing on its financial performance (Donaldson, 2003). In this regard, it has been noted that well governed firms largely perform better and that good corporate
governance is of essence to firm’s financial performance. Demsetz & Villalonga (2002) indicated that a well-functioning corporate governance system helps a firm to attract investment, raise funds and strengthen the foundation for firm financial performance.

1.1.4 Telecommunication Firms in Kenya

The government regulates the telecommunication industry through the Communication Commission of Kenya (CCK). Currently, the Kenyan telecommunication industry has four main players that includes Safaricom, Airtel, Telkom Kenya (Orange) and Yu. The main players are the Safaricom, Airtel, Telkom Kenya (Orange) with market share of 75%, 12% and 9% respectively. The sector has over 17 million active subscribers. The industry in Kenya is going through profound changes. In the past decade, technological advancement and regulatory restructuring have transformed the industry (GoK, 2011).

Markets that were formerly distinct, discrete and vertical have coalesced across their old Boundaries with a massive investment of capital—much of it originating from the private sector participants. The telecommunications sector in Kenya has faced massive corporate governance changes as well as regulatory and technological changes in the last decade. This has resulted to a significant disparity in the financial performance of respective firms based on the corporate governance structure in place and compliance to regulations (CCK, 2012).
1.2 Research Problem

Bebchuk et al, (2004) indicate that well-governed firms have higher financial performance. Claessens (2002) posits that better corporate governance framework benefits firms through greater access to financing, lower cost of capital, better financial performance and more favorable treatment of all stakeholders. Good corporate governance is important for increasing investor confidence and market liquidity (Donaldson, 2003). According to Ntim (2009) although corporate governance in developing economies has recently received a lot of attention, corporate governance in developing economies as it relates to financial performance has an almost been ignored by researchers.

According to Chalhoub (2009) there is insignificant correlation between financial performance and three dimensions of corporate governance, namely, governance training, transparency, and shareholder input in decisions. Wang and Xiao (2006) found that large shareholder ownership, state ownership, and the proportion of independent directors are negatively associated with financial performance. The results also indicate that the degree of balanced ownership, managerial ownership, board size, and CEO duality do not significantly affect the probability of default.

The board of directors monitors developments in the governance area and review and update its governance practices to ensure the most appropriate standards of governance for Telecom firms in Kenya. Between 2003 and 2013 the Telecommunications Act of 1996 was revised. During the mid-2000s the Kenyan telecommunication industry saw growth opportunities increase, barriers between sectors decrease, new entries occur, and competition intensifies. The
Telecommunications Act of 1996 also reduced regulatory monitoring (CCK, 2013). Together, these changes created a natural experiment for disentangling links between firm’s financial performance and governance structure change. Among the four major telecommunication firms in Kenya, only Safaricom have had a steadily increasing financial performance. This has been largely attributed to the corporate governance practices being implemented by the respective firms. Therefore it would be critical to existing relationship between corporate governance and financial performance in the communication sector in Kenya (CBK, 2013).

According to Otieno (2012) corporate governance play an important role on bank stability, financial performance and bank’s ability to provide liquidity in difficult market conditions. Otieno (2013) revealed that board meeting frequency, Audit Committee size and Audit Committee Meeting Frequency have positive relations to the financial performance indicator as measured by Return on Assets among the SACCOs in Kenya. Wandabwa (2010) established that board size and composition, splitting of the roles of chairman and chief executive, optimal mix of inside and outside directions and number board of directors affected the financial performance of the companies. Several studies have been conducted on effects of Corporate Governance on the financial performance; Otieno, (2011) focused on commercial banks; Munyao (2012) investigated on the Forex Bureaus in Kenya; Otieno (2013) focused on savings and credit co-operatives in Nairobi County, while Wandabwa (2010) surveyed broadcasting stations in Kenya.
From the above studies, none has focused on effects of Corporate Governance on the financial performance in Kenya focused on the telecommunication industry despite its strategic role in enhancing the economic growth of Kenya. Informed by this knowledge gap, the study attempted to answer the following research question: what are the effects of Corporate Governance on the financial performance of telecommunication firms in Kenya?

1.3 Research Objective

The objective of this study was to investigate the effects of corporate governance on the financial performance of telecommunication firms in Kenya.

1.4 Value of the Study

The findings of this study may help the regulators and policy makers in the telecommunication industry in coming up with regulatory framework that embraces best practices in implementation of corporate governance. The study may identify ways of implementing the corporate governance to increase organizations financial performance while still ensuring fair competition in the sector.

The study findings may act as a guide on how companies and management should handle and implement corporate governance. The study findings may assist management in planning for any requisite improvements in corporate governance in order to attract new investors and also retain existing ones. The findings may also be useful to researchers and scholars since it forms a basis for further research.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction
This chapter presents review of theoretical literature, empirical studies a summary of the literature review on corporate governance and financial performance. The literature below provides details on stake holder theory, stewardship and agency theories. This is intended to achieve the objective of the study which is to investigate the effects of corporate governance on the financial performance of telecommunication firms in Kenya.

2.2 Theoretical Review
The theoretical framework of this study is anchored on three theories namely: stewardship theory, agency and stakeholder theories. The literature review below provides solid evidence on the basis of various theories of corporate governance as advanced by various scholars.

2.2.1 Agency Theory
The agency theory was proposed by Jones (1995) indicates that corporate governance is based on agency theory, which is the relationship between agents and principals. Agency theory explains how best the relationship between agents and principals can be tapped for purposes of governing a corporation to realize its goals. Interest on agency relationships became more prominent with the emergence of the large corporation. There are entrepreneurs who have a knack for accumulation of capital, and managers who had a surplus of ideas to effectively use that capital. Since the
owners of capital (principals) have neither the requisite expertise nor time to effectively run their enterprises, they hand them over to agents (managers) for control and day-to-day operations, hence, the separation of ownership from control, and the attendant agency problems. In an agency relationship, principals and agents have clearly defined responsibilities: Principals are select and put in place governors (directors and auditors to ensure effective governance system is implemented, while agents are responsible for the day-to-day operations of the enterprise (Daily, Dalton & Canella, 2003).

Historically, definitions of corporate governance also took into consideration the relationship between the shareholder and the company, as per “agency theory”, i.e. director-agents acting on behalf of shareholder-principles in overseeing self-serving behaviors of management. However, broader definitions of corporate governance are now attracting greater attention (Solomon & Solomon, 2004). Indeed, effective corporate governance is currently understood as involving a wide number of participants. The primary participants are management, shareholders and the boards of directors, but other key players whose interests are affected by the corporation are employees, suppliers, customers, partners and the general community. Therefore, corporate governance, understood in these broadening social contexts, ensures that the board of directors is accountable not only to shareholders but also to non-shareholder stakeholders, including those who have a vested interest in seeing that the corporation is well governed.
Some corporate governance scholars (Carter & Lorsch, 2004; Leblanc & Gillies, 2005) also argue that at the heart of good corporate governance is not board structure (which receives a lot of attention in the current regulations), but instead board process (especially consideration of how board members work together as a group and the competencies and behaviors both at the board level and the level of individual directors). As a result, the current scholarly discourse about the nature of corporate governance has come to reflect this body of research.

This separation is however, linked and governed through proper agency relationship at various levels, among others “between shareholders and boards of directors, between boards and senior management, between senior and subordinate levels of management” (ISDA, 2002). In such a principal-agent relationship, there is always “inherent potential for conflicts within a firm because the economic incentives faced by the agents are often different from those faced by the principals” (ISDA, 2002). According to ISDA (2002), all companies are exposed to agency problems, and to some extent develop action plans to deal with them. These include establishing such measures as: controls on the actions of agents, monitoring the actions of agents, financial incentives to encourage agents to act in the interest of the principals, and separation of risk taking functions from control functions (ISDA, 2002).

2.2.2 Stewardship Theory

The stewardship theory was proposed by Davis & Donaldson (1997). According to agency theorists, executives and directors are self-serving and opportunistic. However, the stewardship theorists, reject agency assumptions, suggesting that directors frequently have interests that are consistent with those of shareholders.
Donaldson & Davis (1991) suggest an alternative model of man where organizational role-holders are conceived as being motivated by a need to achieve and gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby to gain recognition from peers and bosses (Donaldson and Davis, 1991).

Where managers have served a corporation for a number of years, there is a merging of individual ego and the corporation (Muth & Donaldson, 1998). Equally, managers may carry out their role from a sense of duty. Citing the work of Silverman (1970), Sundara-Murthy & Lewis (2003) argued that personal perception motivates individual calculative action by managers, thus linking individual self-esteem with corporate prestige.

Davis & Donaldson, (1997) argues that a psychological and situational review of the theory is required to fully understand the premise of stewardship theory. Stewardship theory holds that there is no inherent, general problem of executive motivation (Cullen et al, 2006). This would suggest that extrinsic incentive contracts are less important where managers gain intrinsic satisfaction from performing their duties. A steward protects and maximizes shareholders wealth through firm performance, because, by so doing, the steward’s utility functions are maximized (Cullen, Kirwan & Brennan, 2006).

The stewardship perspective suggests that the attainment of organizational success also satisfies the personal needs of the steward. The steward identifies greater utility accruing from satisfying organizational goals than through self-serving behaviour.
Stewardship theory recognizes the importance of structures that empower the steward, offering maximum autonomy built upon trust. This minimizes the cost of mechanisms aimed at monitoring and controlling behaviors (Davis et al, 1997).

Daily et al. (2003) contend that in order to protect their reputations as expert decision makers, executives and directors are inclined to operate the firm in a manner that maximizes financial performance indicators, including shareholder returns, on the basis that the firm’s performance directly impacts perceptions of their individual performance. According to Fama (1980), in being effective stewards of their organization, executives and directors are also effectively managing their own careers. Similarly, managers return finance to investors to establish a good reputation, allowing them to re-enter the market for future finance (Shleifer & Vishny, 1997).

Muth & Donaldson (1998) described stewardship theory as an alternative to agency theory which offers opposing predictions about the structuring of effective boards. While most of the governance theories are economic and finance in nature, the stewardship theory is sociological and psychological in nature. The theory as identified by Sundara-Murthy and Lewis (2003) gives room for misappropriation of owners’ fund because of its board structure i.e. insiders and the chairman/CEO duality role.

2.2.3 Stakeholder Theory

The stakeholder theory was proposed by Freeman (1994). One argument against the strict agency theory is its narrowness, by identifying shareholders as the only interest group of a corporate entity necessitating further exploration. Stakeholder theory has
become more prominent because many researchers have recognized that the activities of a corporate entity impact on the external environment requiring accountability of the organization to a wider audience than simply its shareholders (Sanda et al., 2005).

For instance, McDonald & Puxty (1979) proposed that companies are no longer the instrument of shareholders alone but exist within society and, therefore, has responsibilities to that society. One must however point out that large recognition of this fact has rather been a recent phenomenon. Indeed, it has been realized that economic value is created by people who voluntarily come together and cooperate to improve everyone’s position (Freeman et al., 2004).

Jenson (2001) critique the Stakeholders theory for assuming a single-valued objective (gains that accrue to a firm’s constituencies). The argument of Jensen (2001) suggests that the performance of a firm is not and should not be measured only by gains to its stakeholders. Other key issues such as flow of information from senior management to lower ranks, inter-personal relations, working environment, etc are all critical issues that should be considered. Some of these other issues provided a platform for other arguments as discussed later. An extension of the theory called an enlightened stakeholder theory was proposed. However, problems relating to empirical testing of the extension have limited its relevance (Sanda et al., 2005).

2.3 Determinant of Financial Performance in Telecommunication Firms

The section presents the determinant of financial performance in telecommunication firms.
2.3.1 Liquidity Ratios

According to James and John (2005) liquidity ratios are defined as a measure of a firm’s ability to pay back short-term obligations. Much insight can be obtained into the present cash solvency of the firm and the firm’s ability to remain solvent in the event of adversity. Liquidity ratios can be measure by current ratio and quick ratio. Steve et al. (2006) defined current ratio as a measure of an entity’s liquidity. Current ratio equal current assets divide by current liabilities. The higher the current ratio, the greater ability of the firm pays its bills. Liquidity measures the ability of managers in firms to fulfill their immediate commitments to policyholders and other creditors without having to increase profits on underwriting and investment activities and liquidate financial assets (Adams and Buckle, 2003).

2.3.2 Asset Turnover

Jose (2010) defined total asset turnover (asset utilization ratio) as the ratio measure the efficiency of a firm to get incomes or revenues by using its assets. This ratio also indicates pricing strategy. Businesses with low profit margins tend to have a high asset turnover, and those with high profit margins tend to have a low asset turnover.

2.3.3 Leverage Ratios

Leverage ratios are intended to address the firm’s long-term ability to meet its obligations. When a firm has debt, it has the obligation to repay the interest. Holding debt will increase the firm’s riskiness. The level of financial leverage shows the ability of listed firm to manage their economic exposure to unexpected losses (Adams...
and Buckle, 2003). According to Johnson & Scholes (2007) many managers find a process for developing a useful set of performance indicators for the organization. One reason for this is that many indicators give a useful but only partial view of overall picture also some indicators are qualitative in nature, whilst the hard quantitative end of assessing been dominated by financial analysis. The evaluation of earnings performance depend upon key profitability measures such as (return on equity and return on assets) to industry benchmark and peer group norms (Federal Reserve Bank, 2002).

### 2.3.4 Internal Factors

The internal factors are firm specific variables which influence the profitability of specific firm. These factors are within the scope of the bank to manipulate them and that they differ from firm to firm. These include capital size, size of deposit liabilities, size and composition of credit portfolio, interest rate policy, labour productivity, and state of information technology, risk level, management quality, bank size, ownership and the like. CAMEL framework often used by scholars to proxy the bank specific factors (Dang, 2011).

CAMEL stands for Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability and Liquidity. Capital is one of the bank specific factors that influence the level of bank profitability. Capital is the amount of own fund available to support the bank's business and act as a buffer in case of adverse situation (Athanasoglou et al., 2005).
2.3.5 Adequacy of Capital

According to Dang (2011), the adequacy of capital is judged on the basis of capital adequacy ratio (CAR). Capital adequacy ratio shows the internal strength of the firm to withstand losses during crisis. CAR is directly proportional to the resilience of the firm to crisis situations. It has also a direct effect on the profitability of firm by determining its expansion to risky but profitable ventures or areas (Sangmi and Nazir, 2010).

2.4 Empirical Studies

Huang (2010) examined the effects of board structure and ownership on a bank’s financial performance using a sample of 41 commercial banks in Taiwan. The results indicated that board size, number of outside directors, and family owned shares are positively associated with bank performance, whereas the number of supervisory directors has a negative influence on performance. The findings provide empirical support for CG, which improves the performance of banks with a dual board system in Taiwan.

Chalhoub (2009) did a study on the relations between dimensions of CG and corporate performance of Lebanese banks. Specifically, the study examined the size of board, number of board sub-committees, number of board meetings, CEO duality, number of independent directors, number of dependent directors, age of the company and size of company in terms of asset value and how they affect the financial performance of banks. The study found significant relationships between performance and five dimensions of CG comprising governance as daily practice: governance literacy, code of ethics, transparency, shareholders’ participation in governance, and
accountability. On the other hand, the study found insignificant correlation between performance and three dimensions of CG, namely, governance training, transparency, and shareholder input in decisions.

Al-Hussein and Johnson (2009) investigated on the relationship between CG efficiency and Saudi banks’ performance. This was through a descriptive survey research design. They found a strong relationship between the efficiency of CG structure and bank performance, which reflects the positive impact of CG practices on performance. However, they also concluded that the relationships between the efficiency of CG structure and bank performance of government and local ownership groups were not significant.

Wang and Xiao (2006) investigated the relationship between CG characteristics and the risk of financial distress in the context of the Chinese transitional economy. They used a sample of 96 financially distressed companies and 96 healthy companies. They found that large shareholder ownership, state ownership, and the proportion of independent directors are negatively associated with the probability of distress. Additionally, managerial agency costs are badly detrimental to a company’s financial status. The results also indicate that the degree of balanced ownership, managerial ownership, board size, and CEO duality do not significantly affect the probability of default.

Otieno (2012) examined the effect of corporate governance on financial performance of Commercial Banks in Kenya. From the findings, it was found out that corporate
governance play an important role on bank stability, performance and bank’s ability to provide liquidity in difficult market conditions. From the findings, corporate governance factors (CGPR, CGPO, DPP & SRR) accounts for 22.4% of the financial performance of commercial banks, derived from adjusted R square value of the regression test.

Ndungu (2013) evaluated the effect of corporate governance on financial performance of insurance companies in Kenya. Specifically, the study examined the size of board, number of board sub-committees, number of board meetings, CEO duality, number of independent directors, number of dependent directors, age of the company and size of company in terms of asset value and how they affect the financial performance of insurance Companies in Kenya. The performance of firms was measured using Return on Assets (ROA). Data was analyzed using a multiple linear regression model. The study found that a weak relationship exist between the Corporate Governance practices under study and the firms’ financial performance. The number of Board sub-committee members, number of dependent directors and the age of the company were found to affect the financial performance of insurance companies positively. The financial performance was however affected negatively by the Board size, number of Board meetings, number of independent directors and the asset value of the firms.

Munyao (2012) reviewed the effects of Corporate governance practices on the financial performance of Forex Bureaus in Kenya. The objectives were to study the effects of the independence and structure of the board, the effects of control systems
and audit practices, the effects of corporate governance’s practices on performance and weaknesses of corporate governance. The study adopted a causal research design. The finding of this study suggests that established corporate governance practices in forex bureaus in Nairobi, includes the existence of the board of directors that also comprise independent board members, composition of the board of directors and the existence of internal controls. In addition, the study has established the effects and weaknesses of corporate governance practices in forex bureaus in Nairobi, Kenya. The effects include improved profitability, return on investment and reduced business risk, while the weaknesses includes irregular external audits, adequacy of staff rewards and internal controls in place.

Otieno (2013) examined the effects of corporate governance practices on the financial performance of savings and credit co-operatives in Nairobi County. The corporate governance practices studied included the board size, board meeting frequency, composition of audit committee, audit committee size, audit committee meeting frequency. Financial Performance was measured by Return on Assets. The study applied a descriptive research approach and regression analysis. The study established that Board meeting frequency, Audit Committee size and Audit Committee Meeting Frequency have positive relations to the financial performance indicator as measured by Return on Assets. However, there are indicators that never had a bearing on the performance indicator (ROA), and this can be attributed to the fact that they remained constant over the whole study period such as Board Committee size, Composition of Audit Committee and Board Size.
Wandabwa (2010) reviewed the relationship between corporate governance and financial performance among broadcasting stations in Kenya. From the findings the study revealed that limited partnership agreements at the top level that prohibit headquarters from cross-subsidizing one division with the cash from another. There is high equity ownership on the part of managers and board members; board members who in their funds directly represent a large fraction of the equity owners of each subsidiary company. The board size and composition, splitting of the roles of chairman and chief executive, optimal mix of inside and outside directions and number board of directors affected the financial performance of the companies.

2.5 Summary of the Literature Review

The review of the empirical literature has identified a number of studies both locally and globally done on the effects of corporate governance on the financial performance. Huang (2010) revealed that that board size, number of outside directors, and family owned shares are positively associated with bank performance while Al-Hussein & Johnson (2009) found a strong relationship between the efficiency of CG structure and bank performance. Otieno, (2012) found out that corporate governance plays an important role on bank stability, financial performance and bank’s ability to provide liquidity in difficult market conditions. Majority of the studies were conducted among the financial institutions and none of them were done on telecommunication firms. This study therefore bridges this gap by investigating the effects of corporate governance on the financial performance of telecommunication companies in Kenya.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the methodology that the researcher used to conduct this study.

The research methodology was presented in the following order: research design, data collection methods, instruments of data collection and finally the data analysis.

3.2 Research Design

This study adopted a descriptive survey. According to Churchill (1991) descriptive survey is appropriate where the study seeks to describe the characteristics of certain groups, estimate the proportion of people who have certain characteristics and make predictions. The primary purpose of the study was to study the role of corporate governance on financial performance of telecommunication companies in Kenya. Khan (1993) recommends descriptive survey design for its ability to produce statistical information about aspects of education that interest policy makers and researchers.

3.3 Target Population

The target population of the study was telecommunication companies in Kenya which included Safaricom limited, Airtel, Telkom Kenya limited and YU. Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated.
3.4 Sampling Procedure

Census sampling technique was used to select the four telecommunication companies in Kenya namely; Safaricom limited, Airtel, Telkom Kenya limited (Orange) and YU). Ngechu (2004) underscores the importance of selecting a representative sample through making a sampling frame. From the population frame the required number of subjects, respondents, elements or firms was selected in order to make a sample. Cooper and Schindler (2003) indicate that census sampling frequently minimizes the sampling error in the population. This in turn increases the precision of any estimation methods used. According to Kothari (2004) a sample of 100% of the target population is usually representative and generalizable when the target population is small.

3.4.1 Data Collection Instruments

For the purpose of this study, the researcher used secondary data. The secondary data was obtained from the published annual reports spanning ten years for the sampled 4 telecommunication firms in Kenya. This was done through desk review.

3.5 Data Analysis

The study used secondary sources of data since the nature of the data was quantitative. Secondary data was sourced from Communications Commission of Kenya from year 2003 to 2013.A ten years trend of Published annual reports of various firms was used. Electronic database provided access to relevant journals and publications related to the topic.
3.6 Analysis Model

The conceptual model in this study is specified as follows:

\[ FP = f(F^{b1}, S^{b2}, L^{b3}, H^{b4}, J^{b5}, R^{b6}, P^{b7}) \]

FP is the financial performance; F is the corporate governance practices; S is the board size; L is the board structure; H is CEO duality, J is board independence, R is insider ownership while P is the control variables.

3.6.1 Empirical Model

The empirical model specification is as follows

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon. \]

Where;

Financial performance = ROA (Return on Assets)

\[ Y = \text{Financial performance} = \frac{\text{net income}}{\text{total assets}} \]

\[ X_1 = \text{board size} = \frac{\text{total number of board members}}{} \]

\[ X_2 = \text{board structure} = \frac{\text{number of committees}}{} \]

\[ X_3 = \text{CEO duality} = \frac{\text{number of companies with dual CEOs}}{\text{number of companies with non-dual CEOs}} \]

\[ X_4 = \text{board independence} = \frac{\text{number of outside directors}}{\text{total number of directors}} \]

\[ X_5 = \text{insider ownership} = \frac{\text{number of private owners}}{\text{total number of owners}} \]

\[ X_6 = \text{Control variable} = \text{Liquidity ratio} \]
$\varepsilon =$ error term  $\beta =$ coefficient  $\alpha =$ constant

The multiple linear regression model and t-statistic was used to determine the relative importance (sensitivity) of each independent variable (corporate governance) in affecting the financial performance of telecommunication firms which was measured using Return on Asset. The results are said to be statistically significant within the 0.05 level, which means that the significance value must be smaller than 0.05. The significance was determined by the t-value, which indicates how many standard error means the sample diverges from the tested value (Kothari, 2004). In addition, the Pearson Product Moment Correlation Coefficient was used to test the direction and magnitude of the relationship between the dependent and independent variables at 95% confidence level.
CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND PRESENTATION

4.1 Introduction

This chapter presents data analysis and interpretation. The objective of the study was to determine the effect of corporate governance on financial performance of telecommunication firms in Kenya. Data was collected from 4 telecommunication companies in Kenya from 2004 to 2013. The data sources included published annual reports for a period of 10 years (2004-2013) as well as other publications. Data was collected based on the variables of the study, that is, financial performance depicted by board size, board structure, CEO duality, board independence and insider ownership.

4.2 Descriptive Statistics

Table 4.1 Return on assets (ROA), Board size, Board structure, CEO duality, Board Independence and Insider Ownership

<table>
<thead>
<tr>
<th></th>
<th>Return on assets (ROA)</th>
<th>Board size</th>
<th>Board structure</th>
<th>CEO duality</th>
<th>Board Independence</th>
<th>Insider Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Std. Dev</td>
<td>1.236</td>
<td>1.004</td>
<td>1.115</td>
<td>6.182</td>
<td>0.135</td>
<td>0.186</td>
</tr>
<tr>
<td>Mean</td>
<td>2.774</td>
<td>9.706</td>
<td>3.968</td>
<td>0.665</td>
<td>4.383</td>
<td>4.369</td>
</tr>
<tr>
<td>Lowest</td>
<td>1.76</td>
<td>7.24</td>
<td>2.03</td>
<td>0.33</td>
<td>2.36</td>
<td>2.35</td>
</tr>
<tr>
<td>Highest</td>
<td>4.45</td>
<td>12.13</td>
<td>5.56</td>
<td>1.00</td>
<td>6.88</td>
<td>6.04</td>
</tr>
<tr>
<td>Median</td>
<td>2.06</td>
<td>10.04</td>
<td>3.96</td>
<td>1.00</td>
<td>4.26</td>
<td>4.22</td>
</tr>
</tbody>
</table>
4.2.1 Financial Performance

According to Bebchuk (2004) well-governed firms have higher firm financial performance while poorly governed firms are expected to be less profitable. The findings as shown in Table 4.1 above indicate the trend of return on assets (ROA) values over the 10 year period. The lowest value for ROA was a mean of 1.76 in year 2004 while the highest value for ROA was a mean of 4.45 in year 2013. This represented a positive change in the ROA mean values of 2.69 over the 10 year period. The steady rise in ROA values over the 10 year period indicates that the financial performance of the telecommunications firms has been on the increase over the last 10 years. On the other hand, high scores of standard deviation indicate variation in the financial performance for the various telecommunications firms, statistically. Thus, corporate governance practices enhanced the financial performance of the telecommunication firms in Kenya.

4.2.2 Board Size and Financial Performance

The findings as shown in Table 4.1 above indicate the trend of board size over the 10 year period. From the findings, the highest value of board size was a mean of 12.13 in year 2004 while the lowest value of board size was a mean of 7.24 in year 2013. This shows a steady decrease in the board size of the telecommunication firms between year 2004 and year 2013. This implies that the telecommunication firms in Kenya reduced their board sizes over the 10 year period. Thus, the board size as a corporate governance practice negatively affected the financial performance of the telecommunication firms over the 10 year period.
4.2.3 Board Structure and Financial Performance

The findings as shown in Table 4.1 above indicate the trend of board structure over the 10 year period. From the findings, the lowest value of board structure was a mean of 2.03 in year 2004 while the highest value of board structure was a mean of 5.56 in year 2013. This shows a steady increase in the board structure of the telecommunication firms between year 2004 and year 2013. Thus, board structure as a corporate governance practice had a positive significant influence on the financial performance of the telecommunication firms over the 10 year period.

4.2.4 CEO Duality and Financial Performance

The findings as shown in Table 4.1 above indicate the trend of CEO duality over the 10 year period. From the findings, the value of CEO duality was a mean of 1.00 between year 2004 and year 2008. The value of CEO duality then reduced to a mean of 0.33 between 2009 to 2013. This shows a degree of stability in the CEO duality of the telecommunication firms between years 2004 and 2008 as well as between years 2009 to 2013. Thus, CEO duality as a corporate governance practice had no significant influence on the financial performance of the telecommunication firms over the 10 year period.

4.2.5 Board Independence and Financial Performance

The findings as shown in Table 4.1 above indicate the trend of board independence over the 10 year period. From the findings, the highest value of board independence was a mean of 6.88 in year 2004 while the lowest value of board independence was a mean of 2.36 in year 2013. This shows a steady decrease in the board independence of the telecommunication firms between year 2004 and year 2013. Thus, board
independence as a corporate governance practice negatively influenced the financial performance of the telecommunication firms over the 10 year period.

4.2.6 Insider Ownership and Financial Performance

The findings as shown in Table 4.1 above indicate the trend of insider ownership over the 10 year period. From the findings, the lowest value of insider ownership was a mean of 2.35 in year 2004 while the highest value of insider ownership was a mean of 6.04 in year 2013. This shows a steady increase in the insider ownership of the telecommunication firms between year 2004 and year 2013. Thus, insider ownership as a corporate governance practice had a positive significant influence on the financial performance of the telecommunication firms over the 10 year period.

4.3 Correlation Analysis
Table 4.2 Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>Financial performance</th>
<th>board size</th>
<th>board structure</th>
<th>CEO duality</th>
<th>board independence</th>
<th>insider ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial performance</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>board size</td>
<td>0.0465</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>board structure</td>
<td>0.4552</td>
<td>0.2893</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEO duality</td>
<td>0.661</td>
<td>0.163</td>
<td>0.216</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>board independence</td>
<td>0.493</td>
<td>0.161</td>
<td>0.233</td>
<td>0.462</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>insider ownership</td>
<td>0.7150</td>
<td>0.2701</td>
<td>0.3487</td>
<td>0.454</td>
<td>0.543</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

Based on the correlation matrix on Table 4.2 above, all the corporate governance practices (board size, board structure, CEO duality, board independence and insider ownership) are positively related to financial performance of telecommunication firms in Kenya.

4.4 Inferential Statistics

In determining the effect of corporate governance on financial performance of telecommunication firms in Kenya, the study conducted a multiple regression analysis to determine the nature of relationship between the variables. The regression model specification was as follows;

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon. \]
Where; \( Y = \) Financial performance

\( X_1 = \) board size, \( X_2 = \) board structure, \( X_3 = \) CEO duality, \( X_4 = \) board independence, \( X_5 = \) insider ownership

\( \alpha = \) constant,

\( \varepsilon = \) error term,

\( \beta = \) coefficient of the independent variable.

This section presents a discussion of the results of the multiple regression analysis. The study conducted a multiple regression analysis to determine the relative importance of each of the variables with respect to financial performance of the commercial banks in Kenya. The study applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study. The findings are presented in the following tables;

**Table 4.3 Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted Square</th>
<th>R</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.899(^a)</td>
<td>.8082</td>
<td>.796</td>
<td>0.0114</td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) Predictors: (Constant), board size, board structure, CEO duality, board independence and insider ownership

b. Dependent Variable: financial performance
Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (financial performance) that is explained by all the five independent variables (board size, board structure, CEO duality, board independence and insider ownership).

The five independent variables that were studied, explain 80.82% of variance in financial performance of telecommunication firms as represented by the $R^2$. This therefore means that other factors not studied in this research contribute 19.18% of variance in the dependent variable. Therefore, further research should be conducted to investigate the other factors that affect the financial performance of telecommunication firms in Kenya.

**Table 4.4 ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>1.323</td>
<td>2</td>
<td>.202</td>
<td>8.66</td>
<td>.004a</td>
</tr>
<tr>
<td>Residual</td>
<td>5.408</td>
<td>3</td>
<td>.246</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6.898</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), board size, board structure, CEO duality, board independence and insider ownership

b. Dependent Variable: financial performance
Analysis of Variance (ANOVA) consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. The "F" column provides a statistic for testing the hypothesis that all $\beta \neq 0$ against the null hypothesis that $\beta = 0$ (Weisberg, 2005). From the findings the significance value is .004 which is less that 0.05 thus the model is statistically significance in predicting how board size, board structure, CEO duality, board independence and insider ownership affect financial performance of telecommunication firms in Kenya. The F critical at 5% level of significance was 3.23. Since F calculated (value = 8.66) is greater than the F critical (3.23), this shows that the overall model was significant.

**Table 4.5 Multiple Regression Analysis**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>B</td>
</tr>
<tr>
<td>(Constant)</td>
<td>4.478</td>
<td>.826</td>
<td>3.61</td>
<td>.000</td>
</tr>
<tr>
<td>board size</td>
<td>-0.312</td>
<td>.0312</td>
<td>0.218</td>
<td>1.81</td>
</tr>
<tr>
<td>board structure</td>
<td>0.802</td>
<td>.864</td>
<td>0.359</td>
<td>8.41</td>
</tr>
<tr>
<td>CEO duality</td>
<td>0.238</td>
<td>.68</td>
<td>0.142</td>
<td>4.56</td>
</tr>
<tr>
<td>board independence</td>
<td>-0.465</td>
<td>.453</td>
<td>0.146</td>
<td>2.52</td>
</tr>
<tr>
<td>insider ownership</td>
<td>0.765</td>
<td>.238</td>
<td>0.044</td>
<td>3.34</td>
</tr>
</tbody>
</table>

From the regression findings, the substitution of the equation

\[(Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon)\] becomes:
Y = 4.478 - 0.312 X_1 + 0.802 X_2 + 0.238 X_3 - 0.465 X_4 + 0.765 X_5 + \epsilon

Where Y is the dependent variable (financial performance), \(X_1\) is the board size, \(X_2\) is the board structure, \(X_3\) is the CEO duality, \(X_4\) is the board independence and \(X_5\) is the insider ownership.

According to the equation, taking all factors (board size, board structure, CEO duality, board independence and insider ownership) constant at zero, financial performance will be 4.478. The data findings also show that a unit increase in board size will lead to a 0.312 decrease in financial performance; a unit increase in board structure will lead to a 0.802 increase in financial performance, a unit increase in CEO duality will lead to a 0.238 increase in financial performance, a unit increase in board independence will lead to a 0.465 decrease in financial performance while a unit increase in insider ownership will lead to a 0.765 increase in financial performance. This means that the most significant factor is board structure followed by insider ownership. At 5% level of significance and 95% level of confidence, board size had a 0.022 level of significance; board structure had a 0.008 level of significance, CEO duality had a 0.012 level of significance, board independence had a 0.018 level of significance while insider ownership had a 0.003 level of significance, implying that the most significant factor is board structure followed by insider ownership and CEO duality (positive influence on financial performance) while board independence and board size (negative influence on financial performance), follow respectively.
4.5 Discussion of Research Findings

The objective of the study was to determine the effect of corporate governance on financial performance of telecommunication firms in Kenya. The objective was assessed by use of secondary data and the subsequent analysis based on the variables of the study.

From the findings, financial performance of the 4 telecommunication firms under study increased over the 10 year period. The mean increase in the return on assets (ROA) from 1.76 in year 2004 to 4.45 in year 2013 and the mean increase in the return on equity (ROE) from 1.28 in year 2004 to 4.34 in year 2013 indicate a steady growth in the telecommunication firms’ financial performance over the 10 year period. Thus, corporate governance practices enhanced the financial performance of the telecommunication firms in Kenya. These findings are consistent with Bebchuk et al (2004) who indicated that well-governed firms have higher financial performance. The findings are also in line with Claessens (2002) who posits that better corporate governance framework benefits firms through greater access to financing, lower cost of capital, better financial performance and more favorable treatment of all stakeholders. The findings are also collaborated by Berglof & Von Thadden (1999) who noted that well - governed firms largely perform better and that good corporate governance is of essence to firms.

The study findings revealed that the telecommunication firms’ board size steadily reduced from a mean of 12.13 in year 2004 to a mean of 7.24 in year 2013. This implies that the telecommunication firms in Kenya reduced their board sizes over the 10 year period. Thus, the board size as a corporate governance practice negatively
affected the financial performance of the telecommunication firms over the 10 year period. These findings are in line with Ndungu (2013) who observed that the financial performance was however affected negatively by the board size, number of board meetings, number of independent directors and the asset value of the firms. The findings are however in contrast with Wang and Xiao (2006) who noted that the degree of balanced ownership, managerial ownership, board size and CEO duality do not significantly affect the profitability of firms.

The study findings revealed that the telecommunication firms’ board structure changed over the 10 year period rising from a mean of 2.03 in year 2004 to a mean of 5.56 in year 2013. The board structure is thus an important element of a firm’s corporate governance. Hence, the board structure as a corporate governance practice positively affected the financial performance of the telecommunication firms. These findings are consistent with Ndungu (2013) who noted that the number of board sub-committee members, number of dependent directors and the age of the company were found to affect the financial performance of insurance companies positively. The findings are also collaborated by Donaldson (2003) who observed that the argument has been advanced time and time again that the governance structure of any corporate entity affects the firm's ability to respond to external factors that have some bearing on its financial performance. The findings are in agreement with Otieno (2013) who noted that board meeting frequency, Audit Committee size and Audit Committee Meeting Frequency have positive relations to the financial performance indicator as measured by Return on Assets.
The study findings revealed that the CEO duality remained constant at a mean of 1.00 between years 2004 and year 2008 and at a mean of 0.33 between years 2009 and 2013. This shows a degree of stability in the CEO duality among the telecommunication firms over the 10 year period. Thus, the CEO duality as a corporate governance practice did not significantly affect the financial performance of the telecommunication firms over the 10 year period. These findings are consistent with Wang & Xiao (2006) who noted that the degree of balanced ownership, managerial ownership, board size and CEO duality do not significantly affect the profitability of the firm.

The study findings revealed that the board independence steadily decreased from a mean of 6.88 in year 2004 to a mean of 2.36 in year 2013. This shows a steady decrease in the board independence among the telecommunication firms over the 10 year period. Thus, board independence as a corporate governance practice negatively affected the financial performance of the telecommunication firms. These findings are consistent with Ndungu (2013) who noted that the financial performance (of insurance companies in Kenya) was however affected negatively by the board size, number of board meetings, number of independent directors and the asset value of the firms. The findings are also in line with Wandabwa (2010) who observed that the board size and composition, splitting of the roles of chairman and chief executive, optimal mix of inside and outside directors and number of board of directors affected the financial performance of the companies.
The study findings revealed that insider ownership steadily increased from a mean of 2.35 in year 2004 to a mean of 6.04 in year 2013. This shows a steady increase in the insider ownership among the telecommunication firms over the 10 year period. Thus, insider ownership as a corporate governance practice positively affected the financial performance of the telecommunication firms. These findings are consistent with Huang (2010) who revealed that board size, number of outside directors, and family owned shares are positively associated with bank performance.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter presents the summary of the data findings on the effect of corporate governance on financial performance of telecommunication firms in Kenya. The conclusions and recommendations are drawn there to. The chapter is therefore structured into summary of findings, conclusions, recommendations and areas for further research.

5.2 Summary of Findings
The study established that financial performance as represented by return on asset (ROA) values for the telecommunication firms steadily increased over the 10 year period. This is as represented by the difference between the lowest mean of 1.76 in year 2004 and the highest mean of 4.45 in year 2013 for ROA. Therefore, corporate governance practices significantly enhanced the financial performance of the telecommunication firms in Kenya. The study found out that there was a steady decrease in the telecommunications firms’ board size as reflected by the decrease in mean values from 12.13 in year 2004 to 7.24 in year 2013. Therefore, the board size as a corporate governance practice negatively affected the financial performance of the telecommunication firms over the 10 year period.

The study found out that there was a steady increase in the telecommunications firms’ board structure as reflected by the increase in mean values from 2.03 in year 2004 to 5.56 in year 2013. Therefore, the board structure as a corporate governance practice positively affected the financial performance of the telecommunication firms over the
10 year period. The study found out that there was a decrease in the CEO duality among the telecommunication firms in Kenya between the first 5 year period (2004-2008) and the second 5 year period (2009-2013) as reflected by a mean value of 1.00 for 2004 to 2008 and a mean value of 0.33 for 2009 to 2013. Therefore, CEO duality as a corporate governance practice did not significantly affect the financial performance of the telecommunication firms over the 10 year period.

The study found out that there was a steady decrease in the telecommunications firms’ board independence as reflected by the decrease in mean values from 6.88 in year 2004 to 2.36 in year 2013. Therefore, the board independence as a corporate governance practice negatively influenced the financial performance of the telecommunication firms over the 10 year period. The study found out that there was a steady increase in the telecommunications firms’ insider ownership as reflected by the increase in mean values from 2.35 in year 2004 to 6.04 in year 2013. Therefore, insider ownership as a corporate governance practice positively affected the financial performance of the telecommunication firms over the 10 year period.

5.3 Conclusion

Given that the board size of the telecommunication firms steadily decreased over the 10 year period and the telecommunication firms’ financial performance steadily improved over the same period, the study concludes that board size as a corporate governance practice negatively affected the financial performance of the telecommunication firms in Kenya. Given the steady increase in board structure of the telecommunication firms over the 10 year period and the corresponding increase in the telecommunication firms’ financial performance over the same period, the study
concludes that board structure as a corporate governance practice positively affected the financial performance of the telecommunication firms in Kenya.

Given the decrease in CEO duality among the telecommunication firms over the 10 year period and the corresponding increase in the telecommunication firms’ financial performance over the same period, the study concludes that CEO duality as a corporate governance practice did not significantly affect the financial performance of the telecommunication firms over the 10 year period. Given the steady decrease in board independence of the telecommunication firms over the 10 year period and the corresponding increase in the telecommunication firms’ financial performance over the same period, the study concludes that board independence as a corporate governance practice negatively affected the financial performance of the telecommunication firms in Kenya. Given the steady increase in insider ownership of the telecommunication firms over the 10 year period and the corresponding increase in the telecommunication firms’ financial performance over the same period, the study concludes that insider ownership as a corporate governance practice positively affected the financial performance of the telecommunication firms in Kenya.

5.4 Recommendations

From the findings, the study established that board size as a corporate governance practice negatively affected the financial performance of the telecommunication firms. Therefore the study recommends that the shareholders’ should not only reduce their firms’ board sizes but the focus should shift from the size of the board to the quality of the telecommunication firms’ board of directors.
From the findings, the study established that board structure as a corporate governance practice positively affected the financial performance of the telecommunication firms. Therefore the study recommends that the shareholders of the telecommunication firms should strive to create an optimal board structure that comprises of representatives of all the crucial stakeholders in the various sub-committees of the board.

From the findings, the study established that CEO duality as a corporate governance practice did not significantly affect the financial performance of the telecommunication firms. However, the study recommends that the telecommunication firms’ CEO should be separate from the board chair in order to avoid agency/conflict of interest problems.

From the findings, the study established that board independence as a corporate governance practice negatively affected the financial performance of the telecommunication firms. Therefore the study recommends that the shareholders of the telecommunication firms should strive to create a board of directors with more dependent directors as opposed to independent directors for the dependent directors have more vested interests in the wellbeing of the firm allowing them to make decisions that enhance the firm’s financial performance as it benefits them more.

From the findings, the study established that insider ownership as a corporate governance practice positively affected the financial performance of the telecommunication firms. Therefore the study recommends that the employees and other internal parties of the telecommunication firms should be allowed to hold some
stake in the firms to give them a sense of ownership and commitment in running the affairs of the companies and thereby enhancing the financial performance of the telecommunication firms.

5.5 Limitations of the Study

The study was limited by lack of adequate information. The Kenyan telecommunication firm’s level of information disclosure differed. Some of the telecommunication firms did not disclose all the information on corporate governance practices in their annual publications. To cope with this challenge, the researcher approached the firms with scanty information seeking clarification on corporate governance practices not disclosed. However, some of the respondents approached were not willing to disclose the information fearing that it could be shared with their competitors.

The descriptive research design had inherent limitation. These limitations included the risk of non-response rate. The study conducted using descriptive research design was conducted on the basis of voluntary participation. The respondents being busy with their work were not willing to participate in giving the information being sought. Where respondents were not fully informed and motivated to give information, cross-sectional designs may be underproductive.

The study was further limited by the lack of co-operation from the study respondents. This is owing to their busy work schedule when the researcher sought clarification on the information on corporate governance practices from them. The study was also limited by the short time frame in which it was conducted. The variables of the study
were many and required a lot of time to collect the data from the selected firms. The short time that the study was carried out required the researcher work for long hours to meet the deadline.

5.6 Suggestions for Further Research

The study explored the effect of corporate governance on financial performance of telecommunication firms in Kenya. The study now recommends that; similar study should be done in other sectors of the economy such as energy and manufacturing sectors in Kenya for comparison purposes and to allow for generalization of findings on the effect of corporate governance on the financial performance of business entities in Kenya.

Since this study explored the effect of corporate governance on financial performance of telecommunication firms in Kenya, study recommends that similar study should be done to explore the effect of corporate governance on equity prices of listed firms in Kenya.

Similar study should be done on effect of corporate governance on financial performance of manufacturing firms in Kenya.

Another study can be done on effect of corporate governance on financial performance of SACCOs firms in Kenya.
REFERENCES


Mcconomy, Bruce, J., Bujaki, & Merridee, L. (2000). Corporate governance: enhancing shareholder value [Includes overview of TSE guidelines] CMA Management, 47.8. 10-13


OECD (1999), Principles of corporate governance, OECD, 3-42.


APPENDICES

LIST OF TELECOMMUNICATION FIRMS IN KENYA

1. SAFARICOM LIMITED
2. AIRTEL
3. TELKOM KENYA LIMITED
4. YU
## APPENDICES:

### APPENDIX 1: RAW DATA SUMMARY OF TELECOMMUNICATION FIRMS

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